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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 002791

SIPDIS

STATE FOR EUR/SE

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SUBJECT: GOT CANCELS \$2B ATAK HELICOPTER, \$1B UAV, AND AN
ALREADY DEAD TANK TENDER

REF: ANKARA 2489

(U) Classified by Ambassador Eric S. Edelman. Reasons: 1.5
(B and D).

SUMMARY

1. (C) The Executive Committee (PM, CHOD and MOD) announced May 14 that it had canceled procurement programs for attack helicopters and UAVs, as well as a moribund program for main battle tanks. The EC publicly explained its decision as an effort to better acquire new models based on domestic production and indigenous designs to meet the current needs of the Turkish military. SSM told Bell-Textron (BT) unofficially there were other reasons for the cancellation: differences in price, budgetary constraints, attractiveness of other offers (i.e. Europeans), and the parties' inability to conclude negotiations after more than seven years. We believe heavy lobbying by Europeans -- including a call from Russian President Putin to PM Erdogan -- may have also played a role. BT is scheduled to meet with SSM U/S Bayar at 1130 local on May 18 to formally discuss the decision. We do not expect the GOT to award new contracts before December 2004, given Turkey's current budgetary constraints, need to adhere to the IMF program, and its desire to entice Europeans with the prospect of winning large defense contracts in exchange of support for Turkey's EU aspirations. While the EC's decision will further strain relations between US defense firms and SSM, we do not believe it will lead the GOT to cancel existing contracts with US firms (i.e., Boeing's AEW&C program). End summary.

TURKEY CANCELS THE ATAK, OTHER MAJOR DEFENSE PROGRAMS

2. (U) The Executive Committee (EC) announced May 14 that it had canceled the attack helicopter and other major defense procurement programs, including the UAV and main battle tank program. In a statement released to the press following the meeting, the EC (comprised of PM Erdogan, TGS CHOD GEN Ozkok and MOD Gonul) said that "it has been decided to meet the needs of the Turkish Armed Forces with new models based on domestic production and original designs and by making use of national resources." The statement also said there would be opportunities for Turkish firms and partnerships between Turkish and foreign firms.

3. (C) Bell-Textron's (BT) local representative told deputy pol-mil counselor May 15 that SSM officials involved with the attack helicopter program had confirmed the EC's decision to cancel the program. In addition to the reasons included in the statement, SSM reportedly said there were a number of other factors that influenced the decision, including:

--Failure of the parties to conclude a contract after numerous years;
--Budgetary constraints;
--Excessive number of aircraft (145) in original Request for Proposal (RFP); and,
--Offers from others (i.e. Europeans' Tiger, Boeing's Apache, Russia's Kamov) had become more attractive since Turkey down-selected BT in 2001.

4. (C) SSM also told BT that it intended to re-issue the tender for the attack helicopter program and said the number of aircraft would be reduced from 145 to 90. SSM did not indicate when the new tender would be issued.

15. (C) The BT representative said that, according to an individual who attended the EC meeting, SSM U/S Bayar did "all of the talking." PM Erdogan reportedly appeared reluctant at times to cancel the program, but did not oppose Bayar's recommendation. Ozkok reportedly said little.

16. (C) A journalist who specializes in defense matters told pol-mil counselor May 15 that, according to an individual who attended the meeting, TGS Deputy CHOD GEN Basbug and SSM U/S Bayar had met for an hour before the meeting. TGS had reservations about Bayar's alternative approach which, for attack helicopters, included an off-the-shelf purchase of a few aircraft followed by production in Turkey with much more local content than what Bell was offering. (Comment: This sounds like the alternative Bayar has been discussing with Bell-Textron for the past month. End comment) However, TGS was not happy with this alternative in part because it resulted in little if any cost savings.

17. (C) The journalist said there was little discussion during the meeting among the PM, CHOD and MOD. Most of the meeting was taken up with presentations by SSM on the three significant projects they considered (attack helicopters, main battle tanks, and UAVs). Ozkok reportedly went into a separate holding room from MOD Gonul and PM Erdogan during a break, something the journalist's source interpreted as a result of continuing tension over the Imam-Hatip issue (septel). Because the EC did not accept SSM's alternative procurement model, they decided to cancel the programs as currently structured, and issue only a brief statement to that effect. Ozkok reportedly left the EC meeting through a side door to avoid the media.

18. (C) The journalist noted that several sources had been saying for some time that TLFC Commander GEN Yalman has long preferred the Kamov alternative, while TLFC staff had been arguing their preference for BT's Cobra. The journalist suggested this might reflect Yalman's Eurasian, anti-American, sentiments. (Comment: During meetings with visiting US military officers and the Ambassador during the last year, Yalman routinely expressed his preference for US military equipment, while highlighting the importance of providing the GOT and Turkish industry access to sensitive technology. End comment.) The journalist added that TGS under Ozkok generally does not like to impose its will regarding procurements on the Services; concern about Yalman's position vis-a-vis the Russians and the debate within TLFC produced gridlock at TGS. The journalist opined this could explain why Ozkok reportedly did not take a firm position in the Executive Committee meeting. The journalist understood that the new helicopter tender would be for "91 aircraft" (sic), down from the 145 maximum under the canceled project.

19. (C) Regarding the main battle tank (MBT) program, the journalist's source said that Turkey would look for 250 used tanks, probably from Germany or the Netherlands, and would work on a new tank probably with South Korean interests who have been promising considerable technology transfer. (Comment: The MBT program has been dormant for several years.) Regarding UAVs, Turkey would purchase two Israeli Harpy systems and an unspecified number of other UAVs.

WHAT HAPPENED

110. (C) We believe there are a number of factors that led the EC to cancel the programs. They include:

--A shared view between the PM, CHOD and MOD that Turkey could not afford (both financially and politically) to spend large sums of money (approximately \$2B in the case of the ATAK program) on defense-related equipment at a time when the GOT is operating under budgetary constraints, trying to adhere to the IMF program, and make its case to the EU that it has enacted the necessary defense-related reforms to receive a date in December 2004 to begin accession talks. Furthermore, the lack of funds has been a persistent problem for SSM. Several weeks ago, Bayar told the Ambassador that this was a major issue in the UAV program (reftel).

--Acceptance that the Turkish Armed Forces do not have an immediate operational requirement that would justify spending large sums of money to acquire the equipment. At the time the RFP for the attack helicopters was issued (1997), the Turkish military was very concerned about the presence of PKK terrorists in southeastern Turkey and northern Iraq. That threat has largely dissipated.

--Inability of the parties to conclude negotiations after many years of negotiations. (BT has been working with the GOT on the attack helicopter program for more than seven years.)

--Heavy lobbying by Europeans (including at least one phone call from Russian President Putin to Erdogan advocating Kamov). Several reports of the meeting cite a participant as saying that the new models for these projects will draw Turkey closer to Europe. We have heard Bayar was the one who made that comment.

--In the case of the ATAK helicopter program, an increasing belief (in part fueled by the Russians, Europeans and other US defense firms) that Turkey could "do better" (i.e. a better system in a shorter period of time for less money and with a greater share of the equipment produced locally). --A perception that Bell-Textron and (to a lesser extent) the USG was unnecessarily restricting Turkey's ability to manufacture the helicopter in country and to obtain access to sensitive technology.

WHAT IS NEXT?

11. (C) While we expect the GOT to issue new, revised tenders for the attack helicopter (and possibly the UAV and main battle tank) programs, it will not make any procurement decisions before December 2004. Turkey's current budgetary situation, its focus on implementing the IMF program, and its apparent desire to entice the Europeans to support Turkey's EU candidacy with the promise of large defense contracts all argue against prompt action. When the GOT does reissue the tenders, we expect SSM and the Turkish Armed Forces to continue their (often times unrealistic) practice of requiring foreign companies and governments to allow local Turkish defense industry to manufacture and assemble as much of the equipment as possible in Turkey. We can also expect similar demands for the transfer of sensitive technology. If this is the case, we believe it will be difficult for American companies to successfully compete -- a point the Ambassador stressed to Bayar during their meeting a few weeks ago. Given the importance the GOT places on developing local defense industry, and the widespread belief Turkey can obtain such a capability only through Direct Commercial Sales (DCS), we believe DCS will continue to be the procurement vehicle of choice in Turkey.

12. (C) We do not believe that the EC's decision will lead the GOT to cancel existing contracts (i.e. AEW&C) with US firms. The EC canceled tenders, not contracts. While US firms will continue to experience their ups and downs in trying to implement their programs, we do not believe SSM or others will cancel existing signed contracts and run the risk of further tarnishing their reputation and losing money already paid to effect programs.

EDELMAN